

## **No crisis, says the president...and fires first vice prime minister**

Vol. 5, No. 137, August 2, 1999

When it is as hot as in Kyiv these days, and when the summer vacation time sweeps all news from the country's political frontlines, decision-makers and policy-influencers who - for the reasons of the election campaign or the need to show action in combating yet another wave of crisis - have not been lucky enough to leave the city for a short break, find themselves in the spotlight, no matter how trivial and artificial their sensations are.

The last days of July presented journalists with a "rebellion" in the top offices of the Ukrainian government and the subsequent dismissal of First Vice Prime Minister Volodymyr Kuratchenko. At the session of the government, the official publicly called for a radical change of the official policy line, proposing "correction" of the current course. In general, there was nothing new in Mr. Kuratchenko's agenda: it was a peculiar mixture of reasonable ideas and overtly left-wing populist declarations that lacked originality and offered no implementation mechanisms. On the one hand, Mr. Kuratchenko called for creating a mechanism for overcoming the non-payment crisis, taking measures to ensure more effective management of state-owned property, providing for economic liquidity of enterprises, launching thorough modernization of production processes, developing and adopting a zero-deficit budget, changing the main focus of the taxation system from purely fiscal to regulating and stimulating, developing of a mechanism of drafting and implementation of the government's decisions in conditions of the freedom of speech, a multi-partisan legislature, active political parties and opposition. On the other hand - he called for revision of the memoranda with the IMF and the World Bank, as well as for restoration, "on a new basis", of national economic planning, development of detailed annual plans, a greater regulating and coordinating role of the government and more independence for the government in development of economic policy and economic decision-making. Other calls that were sure to alienate the majority of the government included revision of the National Bank's monetary, credit and fiscal policies and reform the policy of setting the national currency exchange rate. The call for restructuring Ukraine's foreign debt for three to five years was also not new, but combining it with attacks on the main international donors was hardly a way to secure concessions. The timing could hardly be worse: Mr. Kuratchenko made his anti-market statements at an official meeting of the Cabinet of Ministers on the eve of arrival of the IMF mission to Ukraine, when the preparation for the IMF board meeting supposed to consider providing Ukraine with a new EFF tranche was in process. Mr. Kuratchenko has never been regarded as an influential power broker or smart politician. Yet, he occupied a number of senior positions and was in charge of a number of key issues. Radio engineer, educated at the Zaporizhya Machine-Building Institute, he belonged to the local industrial-nomenclatura elite, the "sister elite" of Dnipropetrovsk. His political career began to develop rapidly in early 1980s, after he "performed the government's tasks in Afghanistan", as official chronicle put it. In a few years upon his return he was promoted to secretary for industrial affairs of the Zaporizhya Communist Party Committee. Two years later he got the position of an inspector at the CPU Central Committee, then went to work as secretary for industrial affairs of the Transcarpathian Communist party obkom, and in 1990 finally returned to his "Radiopribor" plant as the director general. His political career received a new boost in late 1996, when he joined the People's Democratic Party and occupied the 35th place in the party's election list. In December 1996, Mr. Kuratchenko was appointed to the position of Deputy Minister for machine Building, the Military-Industrial Complex and Conversion. A year later he became First Deputy Minister of the Industrial Policy of Ukraine. After the PDP's remarkable failure to receive substantial number of votes in the 1998 parliamentary election, Mr. Kuratchenko was appointed to the position of the head of the Zaporizhya regional state administration. Although repeatedly criticized and formally reprimanded for the region's failure to pay its energy debts, in January 1999 he substituted Anatoly Holubchenko at the position of the First Vice Prime Minister. Other positions he "inherited" from Mr. Holubchenko included those of chairman of the government's Commission for Export Control Policy, chairman the State Commission for Transportation Corridors, chairman of the Interbranch Commission for Navigation and Transportation Management, chairman of the Ukrainian part of the Ukrainian-Turkmen Commission for Economic Cooperation (involved primarily in facilitating the supply of Turkmenian gas to Ukraine), chairman of the State Commission for Communication and Frequency, chairman of the commission for coordination of activities of ministries and other central executive bodies connected with the implementation of the National Industrial Policy Concept. From former Minister of the Cabinet of Ministers Anatoly Minchenko, he

"inherited" the position of chairman of the Coordination Council for Implementation of the Credit Agreement with the EBRD, established to supervise the reconstruction of Ukraine's energy industry. Mr. Kuratchenko's other responsibilities included supervision of development of the space industry; prevention of possible impacts of the "Problem 2000"; control of the repayment of the government-insured foreign loan to the Lysychansk oil refinery complex, the Lysychansknaftoorgsyntez; control over the payment of wage arrears to miners; mediation of the crisis in the coal mining industry, implementation of the TACIS - INOGANE projects of transportation of oil and gas to Europe; ensuring stabilization of the electric energy branch, financial control and payments for consumed energy; development of a new Taxation Code; finding resources for covering the gas debts. Mr. Kuratchenko sat on the boards of the national oil and gas corporation, Naftogaz Ukrainy", and the Cabinet's Council of Exporters.

Apparently, after the collapse of Ukraine's fuel and energy complex, supervised directly by Mr. Kuratchenko, the First Vice Prime Minister had slim chances to survive dismissal, so he decided to extract at least some political pluses out of it by making a political statement and leaving proudly with a scandal. The move would probably be appreciated by a new president whose perspectives on the need for Ukraine to pursue economic transition coincide with Mr. Kuratchenko's if it were made some day in mid-October, i.e., closer to the presidential election. Today, when it is too risky to predict the election outcome, betting on a left-wing presidential hopeful can hardly be regarded as good strategic planning. On the other hand, it was the government that benefited from Mr. Kuratchenko's action, as it received the welcome opportunity to show unity of ranks in support of reform, to issue a memorandum showing loyalty to the President's course, and to demonstrate determination in punishing the anti-market "dissident". In this context, many observers are still wondering whether Mr. Kuratchenko had swallowed the bait thrown by some skillful operators who then used his protest for their own purposes. Apart from these speculations, it is hard to think of a reason why a top-ranking official would suddenly decide to ignore the rules of the game that were clear for him from the very start, and make a public statement instead of expressing his displeasure with the situation privately in a lobby or at a session of the People's Democratic Party, chaired by Prime Minister Valery Pustovoitenko, to which most of members of the government belong.

The closed session of the government issued a statement confirming its determination to pursue the course towards economic transition and dismissing any attempts to return to Soviet-style planning and to default on the state's domestic and international obligations, arguing that the radical change in the course would cause a "civil conflict and international isolation of Ukraine".

Having signed the decree dismissing Mr. Kuratchenko, President Kuchma told journalists there was "no crisis in the government". To support the claim, Minister of Finance Igor Mitiukov argued since January 1999 that the government had managed to reduce the amount of wages and pension arrears by 3 percent. He did not go into detail how that was done; though admitted the budget revenue was well below the planned level. The new appointment of Anatoly Kinakh, MP, chairman of the parliamentary committee for industrial policy, leader of the Ukrainian League of Industrialists and Entrepreneurs, to the position of the First Vice Prime Minister of Ukraine also caused a number of questions. Mr. Kinakh was viewed as a possible replacement for Prime Minister Pustovoitenko, and had good chances to receive the position of the head of the government from a new president. The reason why he accepted the rather uncomfortable position of the First Vice Premier is unclear - except the fact that some offers are made in a way that they can hardly be rejected.

The government embarked on market transformations without accomplishing administrative reform. As a result, the movement to the market is blocked by the unreformed state machine for which deregulation, competition and equal opportunity would be devastating. Therefore, the government continues to live according to the rules it has invented for itself. Volodymyr Kuratchenko said aloud the thing many officials and experts understood: the current so-called "reform course" does not lead anywhere. The structural disproportion in the economy that led to domination of raw material excavation and heavy industries have not been corrected, the genuine market environment has not been created, small and medium enterprises remain marginalized notwithstanding claims of "supporters" at all levels. The base of stability and prosperity, the middle class, has shrunk compared even to early 1990s.

After his dismissal, Mr. Kuratchenko publicly stated he had been misunderstood and argued he had not called for the return to the Soviet-style central planning. Instead, he argued that his proposals corresponded with the President's reform course and the government's Agenda 2010. Taking into account the government's actions to halt the rapid price rise in the energy sector instead of allowing market self-regulation mechanisms to work, one may see that the economic model challenged by the former First Vice Prime Minister is rather distant from what is traditionally viewed as a market economy. Domestic consumers owe over 7 billion hryvnias (about US\$1.8 billion), but continue to

receive fuel from the so-called "state reserve", a relic of the Soviet era. It is the business of the First Vice Prime Minister and the Minister of Energy to seek all sorts of barter schemes to fill the "state reserve" and provide the economy with fuel, particularly needed in the harvest time. Selected traders, close to the government, have been privileged to supply fuel and gas to consumers that are able to pay, while energy companies have to supply energy to loss-making former industrial giants and budget-funded institutions that have not paid for energy for years. Instead of taking measured to correct the disproportion in the energy branch, the government engaged in searching for a scapegoat - and found one.

Mr. Kuratchenko said he was only prepared to work in the incumbent president's team. However, Prime Minister Valery Pustovoitenko said there was no vacancy in his government that he could fill. Today the Ministry of Energy is short of at least 4.5 million tons of coal, needed by October 1 for the winter season. Ukraine owes Russia US\$ 1.8 billion in gas debts, only US\$ 120 million of which has been covered with goods supplied within the government's barter schemes. It is still unclear whether Ukraine will be able to receive necessary amount of fuel for its nuclear power plants. Therefore, there is little the government can do to avoid severe energy shortages and related economic problems, particularly unwanted in the context of the forthcoming presidential election.

The "course of radical economic reform", announced by President Leonid Kuchma in October 1994, differed dramatically from the "most acute issues" raised by recent sessions of the government that focus almost exclusively on "building up industrial and agricultural production", "harvesting", "paying up back wages, pensions and other social security transfers", "covering energy debts" and "preparing to the winter period". In 1996, Leonid Kuchma's suggested "correction of the course of reform" disturbed international creditors, donors and Ukrainian market reform advocates who argued that "correction" was an inadequate for the reason no "course of reform" was in process. Today, the economic life remains overregulated: according to deputy chairman of the State Committee for Enterprise Development Volodymyr Zavhorodniy, currently there are about 100 governmental control and inspection agencies and about 1,500 licenses to be secured by businessmen.

In mid-June 1999, 95% of 1,200 adult Ukrainians surveyed by the Socis-Gallup at the order of the International Foundation for Electoral Systems (IFES) said they were "generally dissatisfied" with the situation in the country. The main reasons for their dissatisfaction included poor living conditions (35%), unemployment (29%), payment arrears (27%) and economic instability (15%). According to the poll results, the number of supporters of market economy decreased from 39% in 1997 to 27% in 1999, while the number of advocates of command-planning economy remained practically unchanged (31% and 30%, respectively). Within the same period the number of respondents who define the preferred type of economy as a mixture of both market and centralized planning increased from 14% to 25%. In 1996, 43% of the respondents believed economic reforms should be pursued as fast as possible, and 13% supported "permanent small steps towards reform". In 1999 the figures changed to 23% of confirmed supporters of fast reform and 33% of advocates of "small steps". When asked to evaluate the real tempo of economic reform in Ukraine, 47% of the respondents said the reform process proceeded "too slowly", and 33% said no reform occurred at all. 35% did not expect any changes in the economic situation in a year, and 44% said the economic situation would further deteriorate.

Reshuffles in the highest ranks of the Cabinet of Ministers are unlikely to result in speeding up economic reform. On the contrary, Mr. Kuratchenko's leftist agenda and the "unanimous" protest of members of the Cabinet against his calls for the "correction of the reform course" may be used by the executive branch as a demonstration of its determination to pursue economic reform, while making concessions to advocates of centralized planning and the government's interference with economic processes.